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R.J.Reynolds Tobacco Company

RJR

ANNUAL REPORT 1967

R. J. Reynolds Tobacco Company

Winston-Salem / North Carolina

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Comparative Summary

CONSOLIDATED

	1967	1966
Net sales	$1,911,414,209	$1,804,199,220
Net earnings	150,952,208	139,994,922
Per share of Common Stock*	3.73	3.41
Net earnings as a percentage of net sales	7.90%	7.76%
Dividends on Preferred Stock	$ 720,000	$ 720,000
Dividends on Common Stock	82,283,651	79,825,408
Per share of Common Stock	2.05	2.00
*Based on average number of shares outstanding	40,302,863	40,800,745
Capital expenditures	$ 31,536,041	$ 34,547,963
Depreciation	26,601,836	23,641,017
Total assets	$1,243,521,934	$1,213,930,227
Current assets	924,749,306	908,716,948
Current liabilities	324,719,392	350,555,928
Net current assets—working capital	600,029,914	558,161,020
Real estate, machinery and equipment—net	209,686,877	204,225,167
Long-term debt	41,000,000	48,000,000
Equity of holders of Preferred Stock	20,000,000	20,000,000
Equity of holders of Common Stock	857,802,542	795,374,299
Number of stockholders at year end	134,038	131,371
Number of regular employees at year end	21,127	19,832

To the Stockholders

The Company's business in 1967 continued to grow and new records were established in sales and earnings. In the fourth quarter, the Company increased its Common Stock dividend rate from 50¢ to 55¢, bringing the total for the year to $2.05 per common share. This was the fourteenth consecutive year in which dividend payments on the Common Stock have been increased, and dividend disbursements were the highest in the Company's unbroken record of dividend payments since 1900.

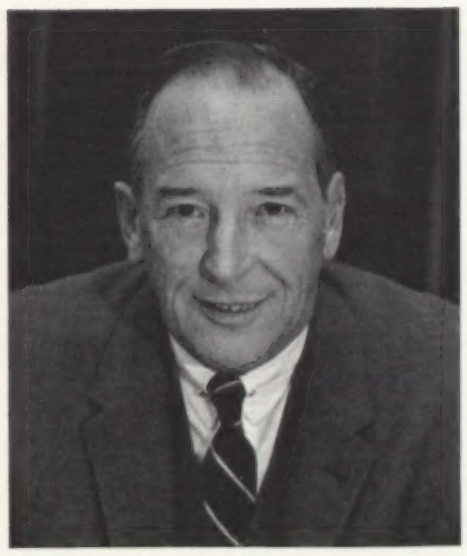
Consolidated sales were $1,911,414,209, up 5.9% over 1966. Consolidated net earnings were $150,952,208, 7.8% greater than the previous year. The 1967 increase in the Company's earnings was principally due to increased cigarette sales and the modest cigarette price increase effective in July. Our continuing program of improving plant efficiencies also contributed to profits.

Again in 1967 three of the four best-selling cigarettes in the nation were Reynolds products: WINSTON, the No. 1 brand in the industry, SALEM, the top-selling menthol cigarette, and CAMEL, the leader in the regular-size, non-filter category. In the 100-millimeter category, representing over 10% of the cigarette market, the Company achieved national distribution of Super King Size WINSTON and Super King Size WINSTON Menthol in March, and Super King Size SALEM in July. Both rapidly gained sales leadership over established extra-length brands and, by the end of the year, Super King Size WINSTON was the leader over all 100mm brands on the market and the extra-length SALEM was the leader among the 100mm menthol brands.

The Company continued to lead all other U. S. cigarette manufacturers in export sales as the total unit cigarette volume shipped overseas in 1967 set record highs. This increase was due primarily to the demand for Reynolds brands by the U. S. military forces in Southeast Asia. However, the demand for American cigarettes continues to grow in many overseas markets at a rate that exceeds domestic growth.

Furthering the program of expanding the Company's business in the growing foreign markets, an interest has been acquired in Fabrica de Cigarros Baloyan, S.A., of Mexico. This company manufactures and distributes cigarettes under its own brand name and is the licensee for the production, distribution, and sales of certain other brands in Mexico. Through this affiliation, it will be possible to expand the sales of Reynolds cigarette brands in the Mexican cigarette market, which is now growing more rapidly than the U. S. market.

BOWMAN GRAY



A. H. GALLOWAY

The manufacture and sales of the Company's cigarette brands are also being expanded in Europe through licensing agreements in Holland and Austria, the shipments of its West German affiliate, Haus Neuerburg, K. G., in the Common Market area, and sales by its Swiss subsidiary in the European Free Trade Association countries.

The total United States domestic consumption of cigarettes increased only slightly over 1966 as our industry continued to be affected by the campaigns of the anti-smoking propagandists and the increasing state and local cigarette taxes. As we have repeatedly stated, we are firmly of the opinion that the adverse effects, if any, of smoking on human health can be determined only by scientific research. We intend, therefore, to continue to support such research until the ultimate truth is known.

During the year, all food and beverage operations in the United States were consolidated into our wholly-owned subsidiary, R. J. Reynolds Foods, Inc. This consolidation included the Company's first acquisition in the food and beverage industry, the Pacific Hawaiian Products Company, and the most recent, Patio Foods, Inc., of San Antonio, Texas, a producer of Mexican-style convenience foods acquired in July. Operations in Canada were expanded by the acquisition of Coronation Foods Corporation, a producer of specialty food items in the Montreal metropolitan area. The name of this company was changed to R. J. Reynolds Foods, Ltd. This subsidiary will coordinate the marketing and sales of the other subsidiaries in Canada engaged in the food and beverage business.

In the aluminum sheet and foil industry, our Archer Products, Inc., subsidiary increased its production capabilities with the opening of its Huntingdon, Tenn., plant in August. Both the industrial and consumer sales of Archer aluminum products were up over 1966. The packaging division of Archer Products, Inc., also had a successful year as it moved into new market areas and expanded both productive and technical capabilities.

Through the acquisition of Filmco, Inc., the Company further broadened its interest in the packaging industry. Filmco, which manufactures and markets polyvinyl packaging films, also increased its production facilities during the year. Sales of Filmco wrapping products in the growing industrial packaging market exceeded 1966. The 1967 increase represents both domestic sales and those in the British and Western European markets by Filmco International, Inc., which by the end of the year had begun production in its new Sedgefield, England, manufacturing plant.

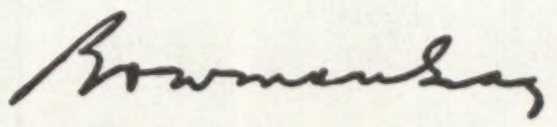
Penick & Ford, Ltd., our corn refining subsidiary, was affected, as were all other companies in its industry, by the severe price competition that depressed profits in 1967. However, during the year the corn wet-milling capacity of the company was increased and unit volume was at a record high. This subsidiary has a promising future when industry pricing becomes more realistic.

The Product Development Department, organized in 1965 to improve existing products and develop new ones for the Company and its subsidiaries, began moving in late December into the new $8 million Development Center located in the Company's Whitaker Park complex in Winston-Salem. The Center, scheduled to be fully operational by mid-1968, provides consolidated facilities for the development and testing of new products from the laboratory stage through pilot plant production. Working closely with the subsidiaries, the staff of the Product Development Department is now engaged in several projects which should result in new and improved products being introduced in 1968.

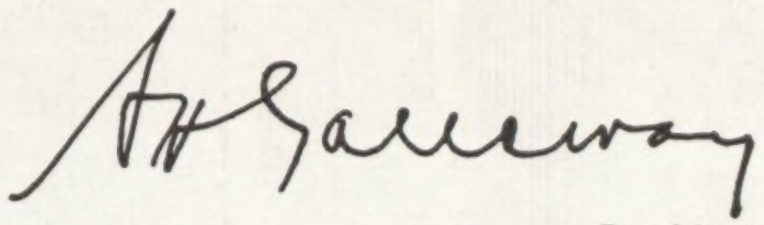
The Company is continuing to seek opportunities for further diversification, both to expand the product lines of its subsidiaries and to acquire additional businesses having sound, profitable growth potentials.

At the close of business in 1967, there were over 134,000 shareholders in the Company, representing every state in the union and 41 foreign countries. We are grateful to them for their confidence and support of the Company and its products. We are also grateful for the dedication and loyalty of all of our 21,000 employees. Through their efforts, and with the continuing support of our share owners, we are confident that the challenges of the future can be met and that the Company's business will continue to expand.

Respectfully submitted for the Board of Directors.



Chairman, Board of Directors



President

February 7, 1968

Research and Product Development

Productive scientific and technological effort has played an important role in the success of the Company for many years. From the laboratories of the Research Department came new knowledge about tobacco and tobacco products that contributed to corporate profitability. With diversification have come increasing challenges to explore new fields of science and technology. The new and varied product lines created the need for a more definite separation between scientific and product technical activities. As a result a Product Development Department was established in 1965.

Today, the Research staff is actively generating new scientific information in chemistry, physics, and biology applicable to the many products that the Company makes and sells. Examples of work in progress are programs directed toward providing a better understanding of the chemical constituents present in tobacco and smoke, the synthesis of new starch derivatives, the properties of new filter systems for smoke, biological characteristics of food products, and new techniques for the analysis of packaging materials. In addition, analytical and specialized quality-control services are provided to the Company and its subsidiaries. The high level of research competence was recognized in 1967 when one of the Company's research scientists received the initial national Award for Distinguished Achievement in Tobacco Science.

The Product Development staff is engaged in the development of new and improved products for Reynolds Tobacco and Reynolds Foods, as well as specific product and process work for the Archer, Penick & Ford, and Filmco subsidiaries. The staff works closely with the marketing groups in the several companies to develop new products that are attractive to consumers and that can be made and sold profitably. Several such products will be introduced in test markets this year. In addition, process improvements that will help lower production costs and increase product yields were made during 1967.

At the year's end, product development operations were being moved into the new $8 million Development Center, which provides ideal facilities for developing new and improved products for the Company and its subsidiaries.

Tobacco Products

R. J. Reynolds Tobacco Company continued its leadership of the tobacco industry in 1967.

The latest available data indicate that the total consumption of cigarettes in the United States in 1967 increased only slightly over 1966. In the face of the proliferation of cigarette brands, with 36 new items introduced by the industry, the Company maintained its share of the total cigarette market.

Again in 1967 three of the four best-selling cigarette brands in the nation were Reynolds products: WINSTON, CAMEL, and SALEM.

Three new cigarettes were introduced by the Company during the year, all in the fast-growing 100-millimeter category: Super King Size WINSTON, Super King Size WINSTON Menthol, and Super King Size SALEM. All performed so well in test markets that they rapidly moved into national distribution, extra-length WINSTON becoming the leading super king size brand and extra-length SALEM the leading super king size menthol brand.

WINSTON widened its lead in 1967 as the No. 1 brand in the industry. The conventional 85-millimeter WINSTON continued as by far the largest-selling item in the cigarette business, and the two WINSTON Super Kings, which were outselling any similar grouping of brands, contributed to the broadened leadership of WINSTON.

CAMEL again increased its share of the regular-size, non-filter cigarette business and was far and away the leader in its category. Contributing to the successful record of the brand was the reintroduction of one of America's best known advertising slogans, "I'd Walk a Mile for a CAMEL."

CAMEL Filter, introduced nationally in the latter half of 1966, continued to make an important contribution to total sales of the famous CAMEL brand.

SALEM continued its outstanding leadership as the top-selling menthol cigarette, a position it has held for ten consecutive years.

The volume of the Company's smoking tobacco sales was slightly lower in 1967, in keeping with the industry trend.

PRINCE ALBERT continued as the nation's largest-selling smoking tobacco.

Menthol Flavor
Salem
CIGARETTES
Filter-Tip

RJR

TOBACCO

PRINCE ALBERT

CRIMP CUT

LONG BURNING PIPE AND CIGARETTE TOBACCO

Prince Albert

PRINCE ALBERT

CRIMP CUT

LONG BURNING PIPE AND CIGARETTE TOBACCO

PRINCE ALBERT

CAMEL

Winston

Salem

CAMEL

Winston

Salem

CARTER HALL Smoking Tobacco showed a substantial increase in volume.

MADEIRA MIXTURE is now firmly positioned among the fast-growing, premium-priced luxury blends of smoking tobacco.

DAYS WORK retained top place with plug tobacco users, although sales declined along with the long-term industry trend.

Effective use of advertising helped the Company to maintain the leadership of its established tobacco brands and to position quickly its new extra-length WINSTON and SALEM Cigarettes as the most successful brands in their categories.

The primary advertising objective was to strengthen the Company's competitive position, reaching as many adult smokers as possible on the most effective and efficient basis.

All major media were employed, including network and spot television, network and spot radio, general magazines, men's magazines, women's magazines, and newspapers. Supplementary advertising support was provided by Railway Express truck posters, transportation car cards, outdoor posters, and point-of-sale display materials.

International Operations

R. J. REYNOLDS (Europe) S.A.
Geneva, Switzerland
JACQUES E. BORIN, *President*

REYNOLDS CIGARETTE CORPORATION
Aarau, Switzerland
MAURICE PERRET, *Manager*

REYNOLDS-NEUERBURG G.m.b.H.
Cologne, West Germany
DR. HANS BUHLER, *Co-Manager*
HELMUT NEUERBURG, *Co-Manager*
WALTER KÖHNEN, *Co-Manager*
DR. ERNST STOLTENBERG, *Co-Manager*

AUSTRIA TABAKWERKE, A.G. (Licensee)
Vienna, Austria

THEODORUS NIEMEYER, N.V. (Licensee)
Groningen, Holland

TABACALERA NACIONAL, S.A. (Licensee)
Lima, Peru

FABRICA de CIGARROS BALOYAN, S.A.
Tijuana, Mexico

GLENN TOBACCO COMPANY
Athens, Greece
EDWIN M. LEIGHT, *Manager*

The Company maintained its leadership in 1967 as the largest exporter of cigarettes from the United States and increased its share of this business. It was the eleventh consecutive year in which export sales of Reynolds brands showed a gain.

In the important Puerto Rican market the Company further strengthened its No. 1 position with another good increase in sales and share of market.

Sales of the Company's cigarette brands in Europe increased during the year. This improvement reflected the efforts of the manufacturing licensees in Holland and Austria as well as manufacturing operations in Germany and Switzerland.

The Company's brands are now moving into the Common Market countries from Germany and into the Scandinavian countries from Switzerland.

Investigation of manufacturing opportunities in other parts of the world was continued. In December an interest was acquired in Fabrica de Cigarros Baloyan, S.A., of Mexico. This affiliation will make possible the production of Reynolds brands in Mexico and increased sales of these brands in the rapidly expanding Mexican market.

Food and Beverage Products

R. J. REYNOLDS FOODS, INC.
750 Third Avenue, New York, N. Y.

JOHN PHILLIPS
President and Chief Executive Officer

PLANT LOCATIONS

Addison, Illinois
Atlanta, Georgia
Baltimore, Maryland
Burlington, Vermont
Cambridge, Maryland
Chicago, Illinois
Duluth, Minnesota
Fullerton, California
Harvey, Louisiana
Hoboken, New Jersey
Jackson, Ohio
Kahului, Maui, Hawaii
Lockport, New York
Pinckneyville, Illinois
Plymouth, Indiana
San Antonio, Texas
San Juan, Puerto Rico
Ste. Therese, Quebec
Windsor, Ontario

The Company's food and beverage business had good growth in sales and profits in 1967.

During the year the Company's interests in the food and beverage business in the United States were consolidated into the wholly-owned subsidiary R. J. Reynolds Foods, Inc. This move improves market coverage, reduces costs, and helps to attract talented personnel.

At the start of the year the product lines included the well-known brand names of HAWAIIAN PUNCH fruit juice beverages; CHUN KING canned and frozen American-Oriental foods; COLLEGE INN chicken and beef specialties and tomato cocktail; VEGAMATO vegetable juices; MY-T-FINE puddings, pie fillings, egg custards, and pie crust mixes; VERMONT MAID syrups; BRER RABBIT molasses and syrups; SWEL frosting mixes; DAVIS baking powder; COCOMALT beverage mix; and the various FILLER snack products.

The growing line of "convenience" items was broadened further with the acquisition in July, 1967, of Patio Foods, Inc., of San Antonio, Texas, producer of Mexican-style prepared foods. PATIO frozen foods include complete dinners (consisting of combinations of tamales, beef and cheese enchiladas, tacos, chili, beans, rice, and corn) as well as individual preparations for mealtime and snacks. The PATIO products are generally available in most of the major market areas of the United States and have a good growth potential.

The addition of the PATIO line, along with CHUN KING and HAWAIIAN PUNCH, has strengthened Reynolds Foods' position in the growing field of "international" foods.

An improved system of sales management was established during the year to combine the

activities of the separate food sales organizations in the Reynolds Foods family. Seven regional managers are now responsible for the full Reynolds Foods line sold through retail stores in their territories. This realignment has strengthened the organization by providing more efficient market coverage and sales supervision.

At the end of the year, all operations of Pacific Hawaiian Products Company (formerly a separate subsidiary of Reynolds Tobacco Company) had been combined with Reynolds Foods.

National distribution of the two new flavors of HAWAIIAN PUNCH—"Taste of Orange" and "Taste of Grape"—was achieved early in 1967, with very favorable response. A third new variety, "Taste of Pineapple," was introduced in November.

It is significant that five Reynolds Foods lines were the leaders in their respective fields in 1967: CHUN KING Oriental foods, HAWAIIAN PUNCH, BRER RABBIT molasses and syrups, COLLEGE INN chicken specialties, and PATIO Mexican foods. Excellent progress was made by MY-T-FINE desserts, and their growth prospects are favorable.

Advertising support for the food and beverage brands was increased during the year with good results.

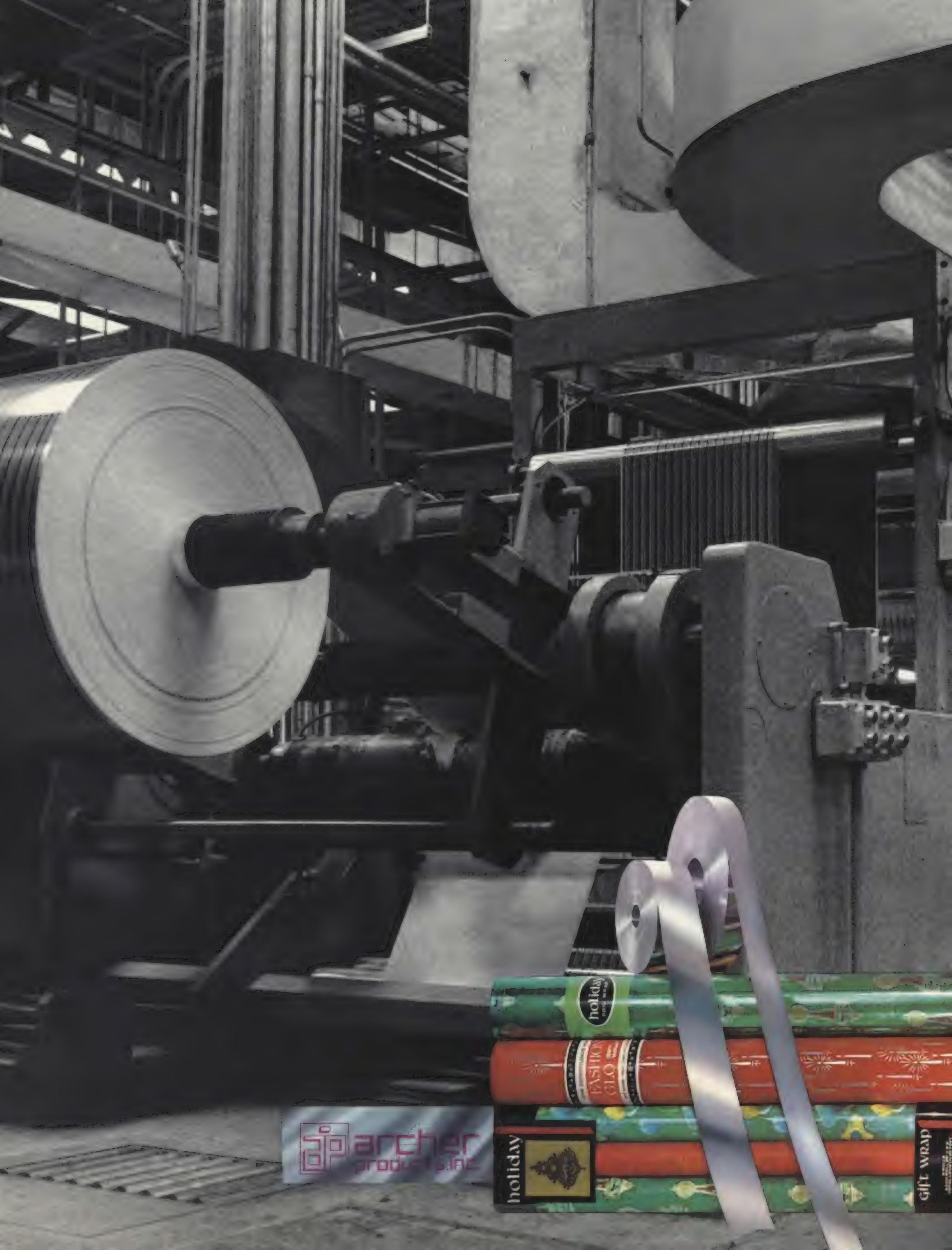
Major additions were made to the CHUN KING plant at Jackson, Ohio, and the PATIO plant at San Antonio, Texas.

Operations in Canada were expanded by the acquisition of Coronation Foods Corporation in June, 1967. This added CORONATION and GRANADA brands of specialty food items and SWING instant fruit crystals to Reynolds' existing lines in Canada—CHUN KING and DRAGON products. At the end of the year distribution of these lines was combined with the operations of Coronation, whose name was changed to R. J. Reynolds Foods, Ltd.

R. J. Reynolds Foods, Inc., is looking to further acquisitions in the advertised packaged foods field. However, longer range growth is expected to come from a greatly expanded program of product development and improvement now under way. Close cooperation is maintained with the new Development Center in Winston-Salem, and several new products are scheduled for test-marketing in 1968.

PATIO
CHEESE ENCHILADA DINNER
PATIO
CHOW MEIN NOODLES
CHICKEN CHOW MEIN

HAWAIIAN PUNCH
HAWAIIAN PUNCH
HAWAIIAN PUNCH
HAWAIIAN PUNCH
FRUIT JUICY RED
HAWAIIAN PUNCH


holiday
holiday
GIFT WRAP

Aluminum and Packaging Products

Archer Products, Inc., completed its first year of operations as a separate subsidiary. Previously, Archer Aluminum had functioned as a division of the parent Company.

While the nation's aluminum and flexible packaging industries were generally off in 1967 compared with 1966, Archer substantially improved its results. Sales to the parent Company (which represent the major part of Archer's production) were up, with even larger increases in sales to outside customers.

In the *Packaging Division* a new 8-color rotogravure press, incorporating the latest advances in printing technology, was installed. This press, with its capability of applying special coatings and printing on lightweight papers, aluminum foil, and plastic film, enables Archer to compete more effectively as a supplier of the most sophisticated packaging materials. A new polyethylene extruder, installed during the year, increased Archer's capacity to produce extruded materials for flexible and semi-rigid packaging. New business was developed in packaging materials for meats, frozen bakery products, pharmaceuticals, and soft drink concentrates. The packaging division is now well equipped to supply a wide variety of packaging materials.

In the *Metals Division* the new aluminum sheet and foil rolling plant at Huntingdon, Tennessee, became operational in mid-1967, adding substantially to production capacity and capability. The largest share of the division's increased volume was in converter foil. Increased sales also came from the introduction of a new product, aluminum strip conductor for electrical transformers. Aluminum is rapidly gaining acceptance as a replacement for copper in transformer windings. Gains were made in sales of fin stock for air conditioning equipment, metal for foil containers for prepared foods, and sheet for litho plates used in gravure printing.

The *Consumer Products Division* redesigned its gift wrap items and improved its manufacturing efficiency. Sales gains were made in gift wrap, florist foils, and household foils. The division's products, which are distributed through major variety, drug, and grocery chains, are gaining wide consumer acceptance.

ARCHER PRODUCTS, INC.
Winston-Salem, North Carolina

SAMUEL A. ANGOTTI
President and Chief Executive Officer

PLANT LOCATIONS
Greeneville, Tennessee
Huntingdon, Tennessee
Winston-Salem, North Carolina

Vinyl Packaging Products

Filmco, Inc., acquired by the Company in February, 1967, is one of the nation's leading manufacturers and suppliers of vinyl packaging films to food stores. Major products are protective meat and produce wraps designed for self-service displays in food stores. Filmco is also expanding into new market areas in the industrial packaging field with the introduction of new films to package such products as toys, games, and clothing.

Filmco, which is operated as a wholly-owned subsidiary, had a substantial increase over its 1966 results in both domestic and international sales. These gains were made despite increased competition and lower pricing prevalent in the vinyl film industry.

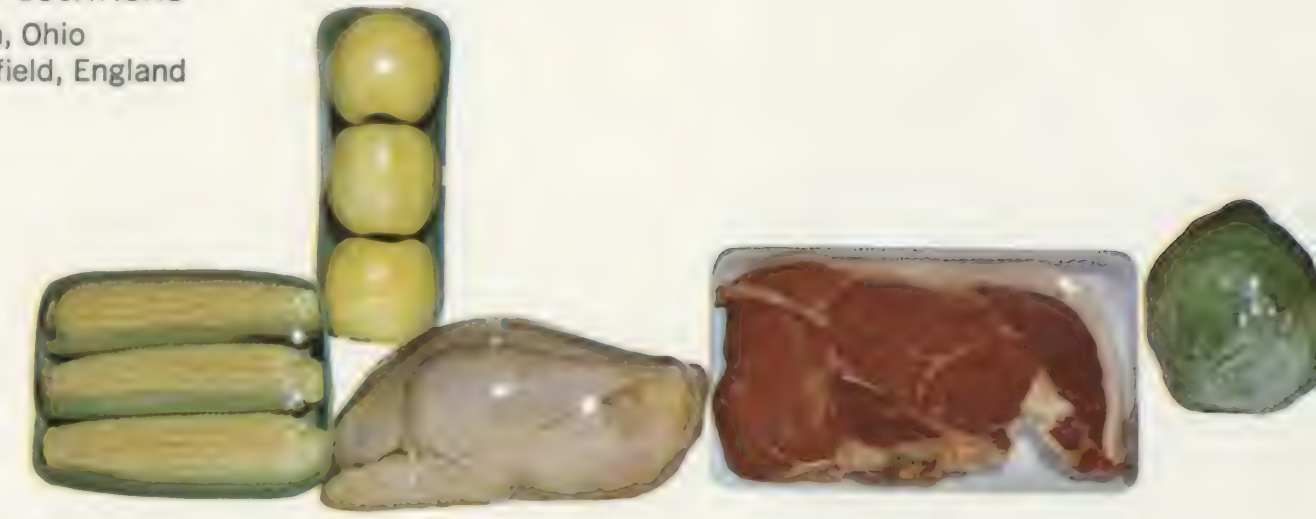
Manufacturing facilities located in Aurora, Ohio, were made more productive by the installation of new equipment.

In order to achieve increased volume of business in the rapidly expanding markets for vinyl packaging films in the British and Western European markets, another subsidiary, Filmco International, Inc., constructed a manufacturing plant in Sedgefield, England. This plant will enable Filmco International to be more competitive than it could be through importations from the United States.

FILMCO, INC.
Aurora, Ohio

PAUL J. VAUGHAN
President and Chief Executive Officer

PLANT LOCATIONS
Aurora, Ohio
Sedgefield, England



Industrial Corn Products

The Penick & Ford subsidiary again established an all-time high in terms of volume of product sold, continuing more than a decade of annual record highs. Dollar sales, however, were slightly below those of the previous year because of lower selling prices.

For the greater part of the year, profits were affected by severe price competition in the corn refining industry, principally in corn syrups. Improvement in the second half of the year was short-lived and this problem continues.

The initial modernization and expansion of production facilities at the Cedar Rapids corn wet-milling plant, begun in 1965, were essentially completed during 1967. Additional projects were initiated to increase further the production capacity of this plant by the summer of 1968.

The Potato Products Division operated at full capacity during 1967. A potato flake plant was constructed at Monte Vista, Colorado, and put into operation. An outstanding potato crop in Idaho and Colorado indicates that 1968 operations will continue at capacity levels.

PENICK & FORD, LIMITED
Cedar Rapids, Iowa

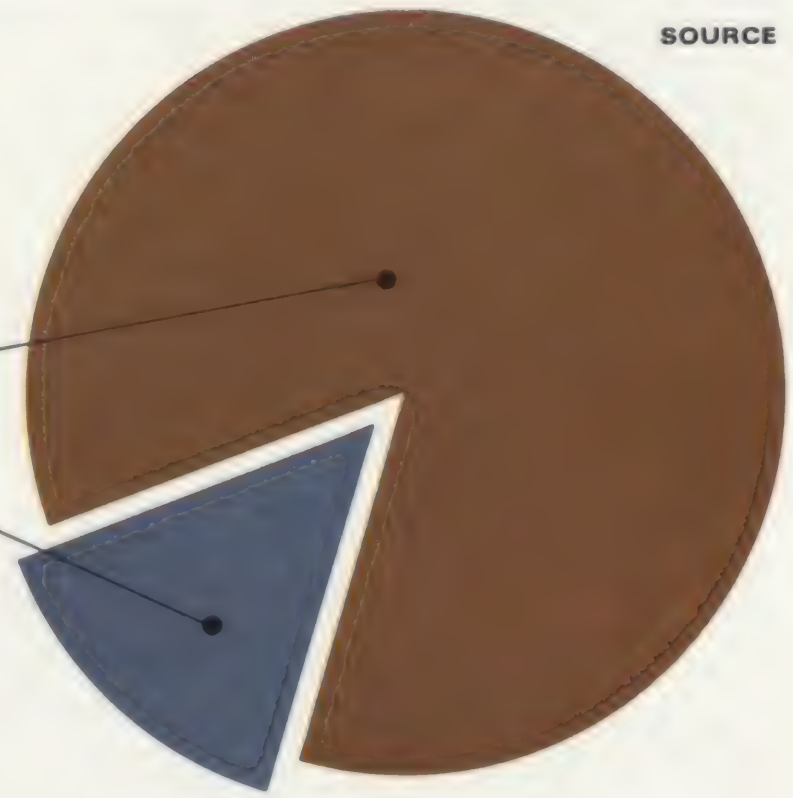
R. V. CRONIN
President and Chief Executive Officer

PLANT LOCATIONS
Aberdeen, Idaho
Blackfoot, Idaho
Cedar Rapids, Iowa
Idaho Falls, Idaho
Monte Vista, Colorado

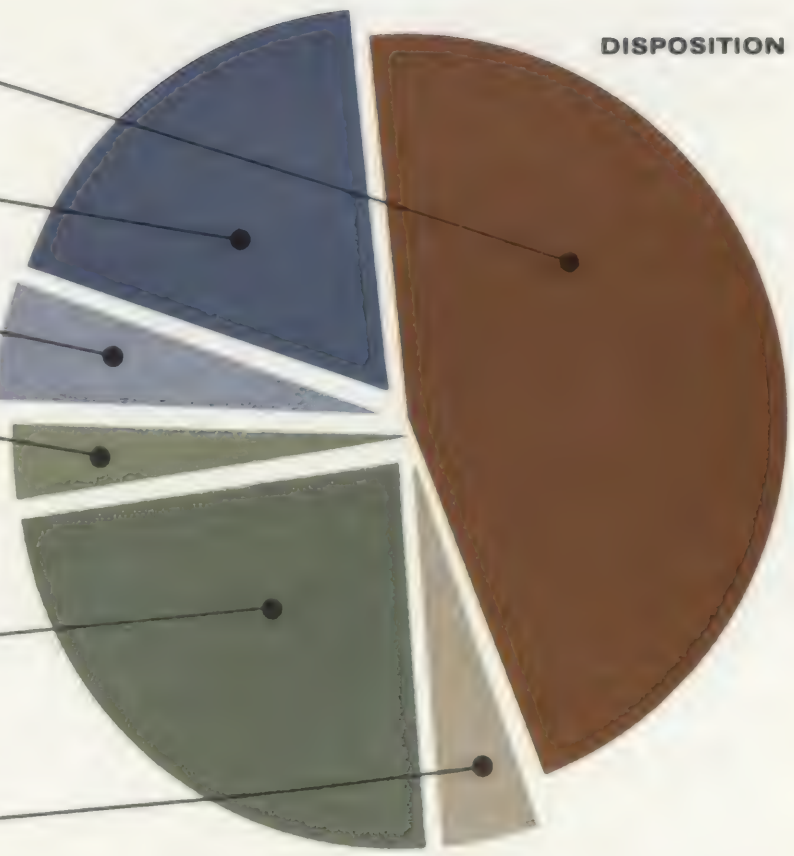
DOUGLAS
PEARL
STARCH
ASTRO
X-100
CROWN
THIN BOILING
STARCH
XP
ASTRO
GUM
21
DOUGLAS
CORRUGATING
STARCH
DOUGLAS
CLEARSOL
GUM
280
DOUGLAS
POWDERED
STARCH
ESSEX
PENICK & FORD, LTD.
INCORPORATED
CEDAR RAPIDS, IOWA - U.S.A.
BLACKFOOT, IDAHO
100 LBS.

SOURCE & DISPOSITION OF CORPORATE FUNDS

Net earnings	$150,952,208
Depreciation	26,601,836
Total	$177,554,044



Dividends paid	$ 83,003,651
Expenditures for expansion and modernization	31,536,041
Investment in unconsolidated foreign subsidiaries	8,333,442
Purchase of Common Stock	5,600,001
Increase in working capital—	
Decrease in current liabilities	25,836,536
Increase in current assets	16,032,358
	$ 41,868,894
Decrease in long-term debt	7,000,000
Other	212,015
	$ 7,212,015
Total	$177,554,044



Sales and Earnings

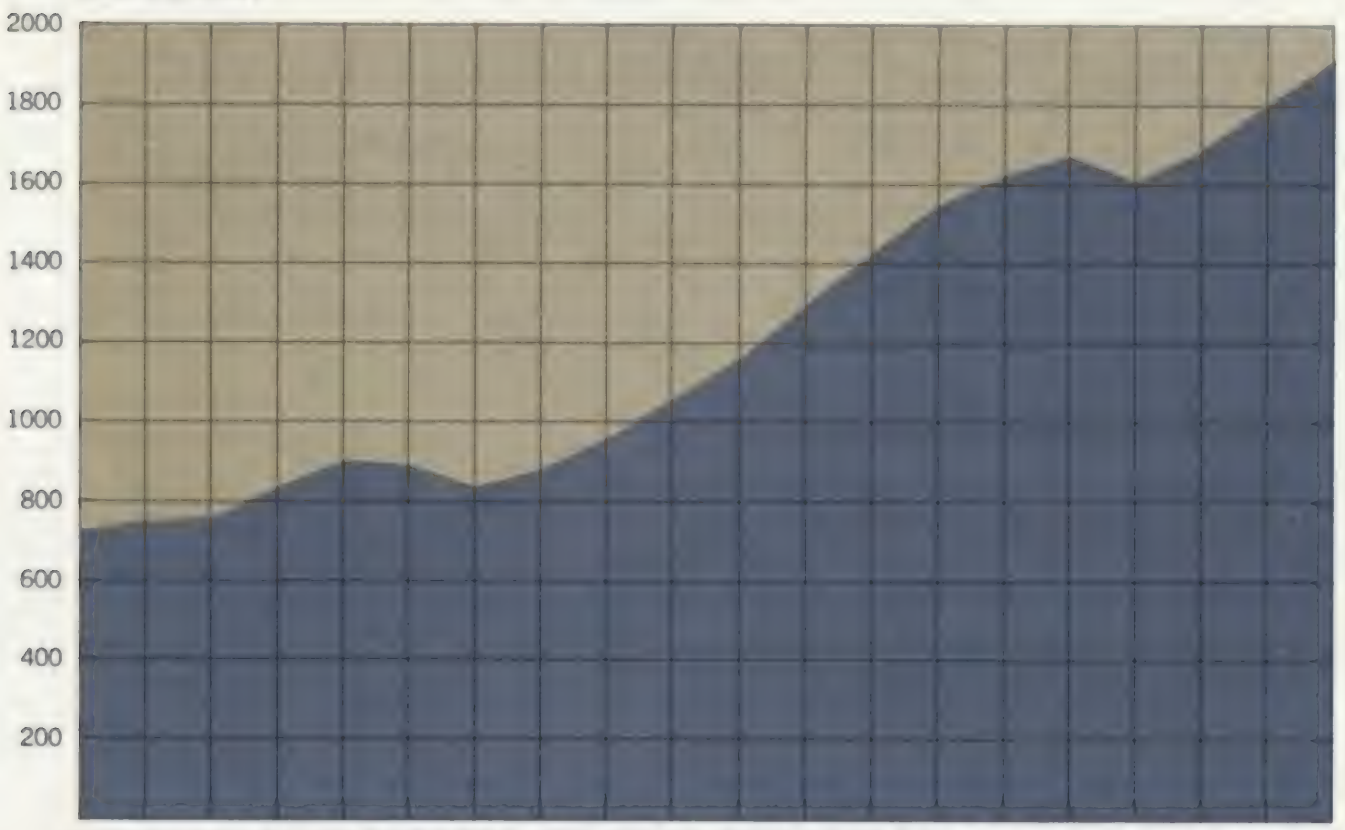
Sales during 1967 of $1,911,414,209 were the highest in the history of the Company, 5.9% above the 1966 record of $1,804,199,220. Sales records for 1967 were achieved in both the consumer and industrial activities of the Company.

Net earnings of $150,952,208 were 7.8% greater than the previous year's record of $139,994,922. The earnings increase resulted from higher volume, increased efficiency from plant modernization, and a modest cigarette price increase at mid-year.

Net earnings on the Common Stock, after payment of dividends on the Preferred Stock, were $3.73 per share as compared with $3.41 last year. In accordance with an opinion, effective in 1967, of the American Institute of Certified Public Accountants, per share amounts are based on the average number of shares outstanding during each year.

TWENTY YEAR SALES

Millions of Dollars



The 1967 amounts include for the full year the operating results of Filmco, Inc. acquired February 10, and Patio Foods, Inc. acquired July 20, in exchange for treasury Common Shares. Both acquisitions have been accounted for as poolings of interests and accordingly the 1966 amounts have been restated for comparative purposes. On June 29, 1967, the Company acquired for cash the capital stock of Coronation Foods Corporation, a Canadian corporation. This transaction has been accounted for as a purchase and the operating results since the date of acquisition have been included in the consolidated amounts.

On December 20, 1967, the Company purchased an interest in Fabrica de Cigarros Baloyan, S. A., a manufacturer of cigarettes in Mexico. The consolidated amounts do not include the operating results of foreign subsidiaries and affiliates, other than Canadian.

Sales Diversification

Sales of tobacco products represented 89% of the consolidated total for the year, and sales of non-tobacco products accounted for 11%. Included in total sales is an amount of $696,516,424, representing excise taxes on tobacco products.

Dividends

Dividends on the Common Stock during 1967 were $2.05. This was the fourteenth consecutive year of increased per share dividend payments. Dividends paid during the year aggregated $83,003,651, the highest for any of the sixty-eight years of consecutive dividend payments.

Financial Position

Short-term debt was $175,500,000 at the end of 1967, or $5,150,000 less than at the close of 1966. The low point in 1967 was $54,750,000; the Company was free of this type of debt for a short period in 1966. Long-term debt was reduced by $7,000,000 during the year and amounted to $41,000,000 at year end.

The Company held in the treasury 735,981 shares of its Common Stock at December 31, 1967, available for diversification and other corporate purposes. During the year, 133,300 shares were purchased at an average cost of $42.01 per share.

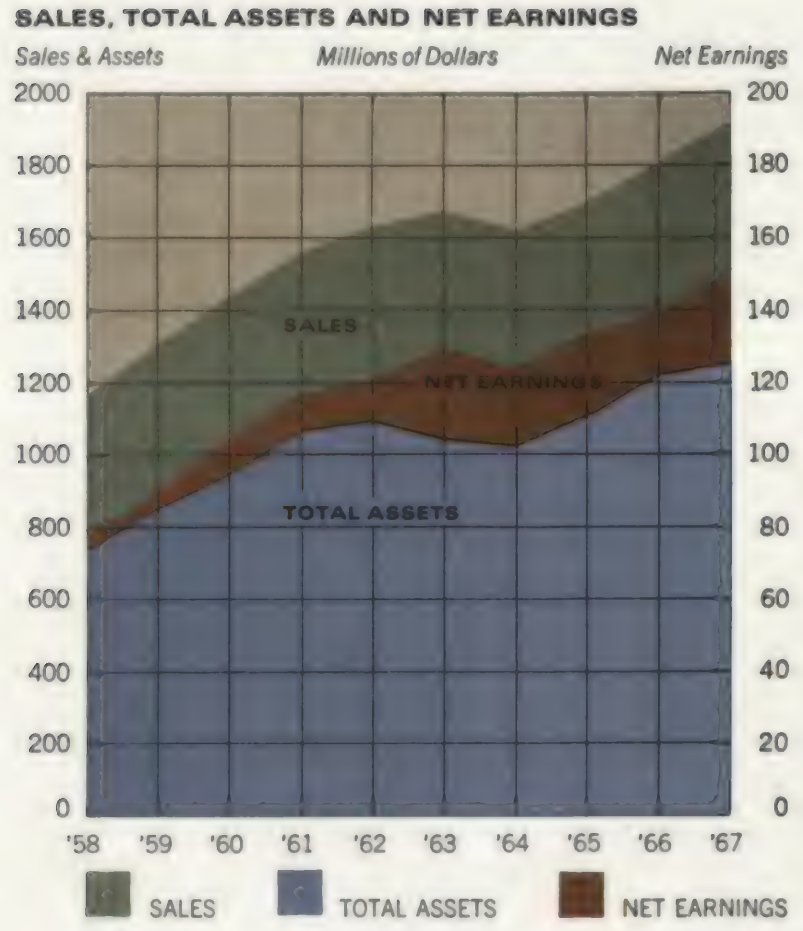
Capital Expenditures

A total of $31,536,041 was invested during 1967 in plant expansion and modernization. Major projects included the modernization of cigarette production facilities and construction of the product development center in Winston-Salem, N. C.; a packaging film manufacturing facility in Sedgefield, England; and the expansion and modernization of the Company's food processing plants at Jackson, Ohio, and San Antonio, Texas.

Capital expenditures for 1968 are currently estimated at $28,000,000. Included in the plans are the continuing modernization of tobacco manufacturing facilities, and the expansion of food and corn processing facilities.

Ten Year Summary

(Dollar amounts in thousands, except share statistics)

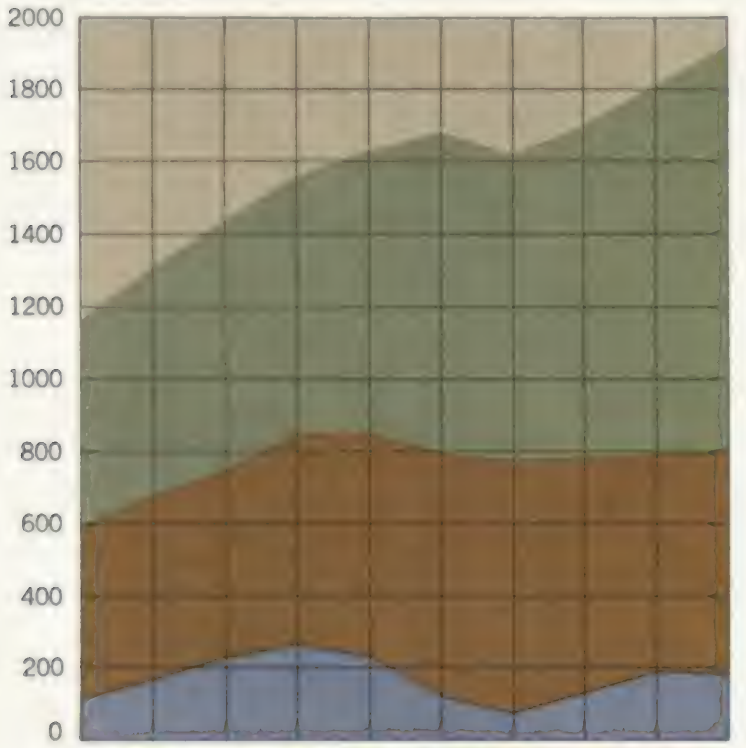


Year ended December 31,	1967	1966	1965
SALES, EARNINGS AND DIVIDENDS			
Net sales	$1,911,414	$1,804,199	$1,693,148
Earnings before taxes on income	304,739	278,994	266,376
Federal and state taxes on income	153,787	138,999	133,019
Net earnings	150,952	139,995	133,357
Dividends on Preferred Stock	720	720	722
Dividends on Common Stock	82,284	79,825	75,006
FINANCIAL POSITION AND EQUITIES			
Working capital	$ 600,030	$ 558,161	$ 608,287
Current assets:			
Inventories	797,059	791,803	783,434
Other current assets	127,690	116,914	98,224
Total current assets	924,749	908,717	881,658
Plant and equipment—net	209,687	204,225	181,633
Other non-current assets	109,086	100,988	48,696
Total assets	1,243,522	1,213,930	1,111,987
Current liabilities:			
Short-term debt	175,500	180,650	125,000
Current maturities of long-term debt	3,005	4,080	6,400
Federal and state income tax liabilities	44,426	66,351	77,431
Other current liabilities	101,788	99,475	64,540
Total current liabilities	324,719	350,556	273,371
Long-term debt	41,000	48,000	55,000
Equity of holders of Preferred Stock	20,000	20,000	20,000
Equity of holders of Common Stock	857,803	795,374	763,616
STATISTICAL INFORMATION			
Capital expenditures	$ 31,536	$ 34,548	$ 20,246
Depreciation	26,602	23,641	21,859
Per common share			
Net earnings*	3.73	3.41	3.27
Dividends (on R. J. Reynolds Tobacco Company shares)	2.05	2.00	1.85
Book value	21.32	19.70	19.00
*Based on average number of shares outstanding (Adjusted for 2-for-1 splits in 1961 and 1959)	40,302,863	40,800,745	40,528,050
Number of RJR shareholders at year end	134,038	131,371	118,281

The accounts of Filmco, Inc., and Patio Foods, Inc., acquired during 1967, on a pooling of interests basis, are included subsequent to 1965.

SALES, INVENTORY AND SHORT TERM DEBT

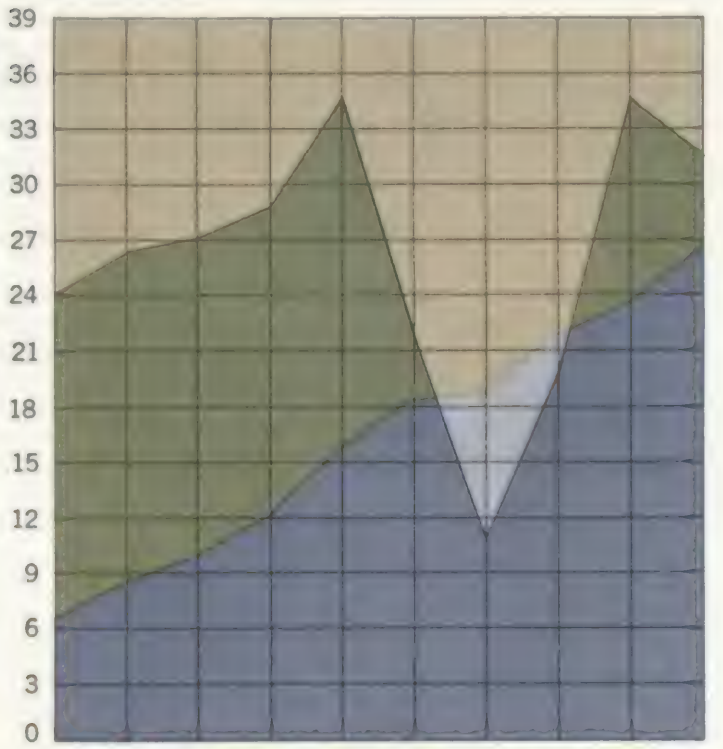
Millions of Dollars



SALES INVENTORY SHORT TERM DEBT

CAPITAL EXPENDITURES AND DEPRECIATION

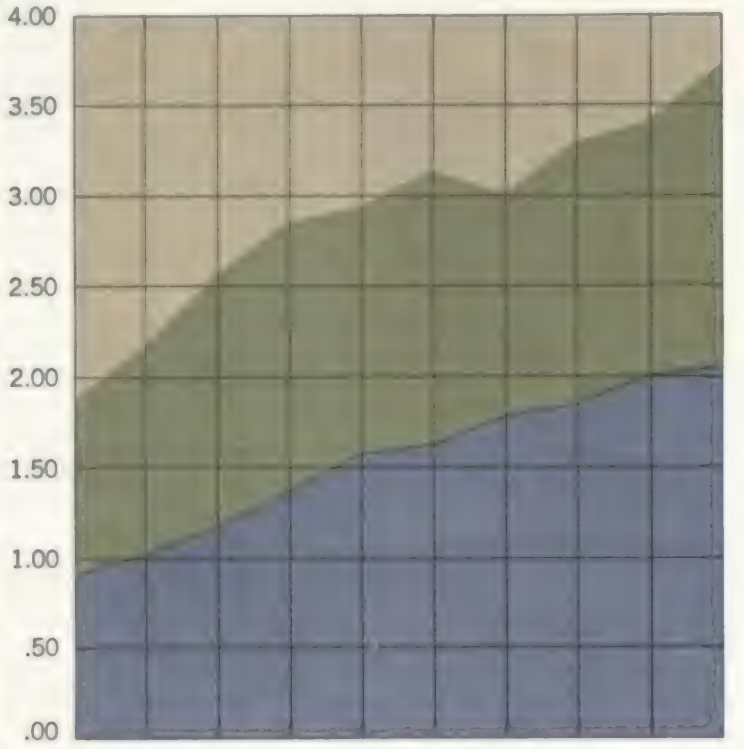
Millions of Dollars



CAPITAL EXPENDITURES DEPRECIATION

EARNINGS & DIVIDENDS PER COMMON SHARE

Dollars



EARNINGS DIVIDENDS

1964	1963	1962	1961	1960	1959	1958
$1,613,802	$1,672,445	$1,627,541	$1,555,527	$1,438,547	$1,306,197	$1,163,258
251,725	277,601	260,977	265,220	224,018	199,825	173,757
127,720	148,535	139,821	146,499	117,643	108,507	94,576
124,005	129,066	121,156	118,721	106,375	91,318	79,181
768	858	936	1,044	1,135	1,296	2,306
73,734	67,602	64,512	56,439	48,345	42,260	37,150
$ 665,030	$ 620,120	$ 568,413	$ 542,047	$ 499,782	$ 480,112	$ 457,517
775,282	795,565	845,929	845,185	745,125	686,324	596,859
91,908	82,551	84,317	84,590	82,099	73,710	68,478
867,190	878,116	930,246	929,775	827,224	760,034	665,337
144,361	150,023	147,568	129,001	112,606	96,153	79,830
7,651	9,501	11,313	9,085	13,926	3,199	3,162
1,019,202	1,037,640	1,089,127	1,067,861	953,756	859,386	748,329
67,000	114,500	222,350	258,556	216,639	158,422	106,447
5,396	5,700	6,000	6,000	6,000	6,000	6,000
82,422	96,304	89,605	92,939	77,633	78,173	74,430
47,342	41,492	43,878	30,233	27,170	37,327	20,943
202,160	257,996	361,833	387,728	327,442	279,922	207,820
62,000	68,000	74,000	80,000	86,000	92,000	98,000
20,272	22,459	24,974	27,871	29,511	34,301	37,666
734,770	689,185	628,320	572,262	510,803	453,163	404,843
$ 11,085	$ 21,940	$ 34,727	$ 28,747	$ 27,072	$ 26,491	$ 24,087
18,583	18,339	15,648	12,039	10,241	8,888	6,538
3.01	3.13	2.94	2.87	2.57	2.20	1.88
1.80	1.65	1.60	1.40	1.20	1.05	.92½
17.98	16.82	15.34	13.97	12.47	11.07	9.89
40,968,611	40,964,177	40,957,619	40,957,106	40,951,641	40,944,537	40,943,197
114,010	103,282	97,383	89,550	81,856	81,063	78,396

Consolidated Balance Sheets

DECEMBER 31, 1967 AND 1966

R. J. REYNOLDS TOBACCO COMPANY AND CONSOLIDATED SUBSIDIARIES

ASSETS	1967	1966
Current assets:		
Cash	$ 29,266,571	$ 30,228,573
Marketable securities—at cost (approximately equal to market)	300,214	675,224
Accounts receivable (less discounts)	94,718,000	82,649,015
Leaf tobacco, supplies, manufactured products, etc.—at cost (substantially all on last-in, first-out basis)	797,059,253	791,803,417
Prepaid expenses	3,405,268	3,360,719
Total current assets	924,749,306	908,716,948
Real estate, machinery and equipment—at cost	377,526,577	347,817,052
Less allowances for depreciation	167,839,700	143,591,885
Net real estate, machinery and equipment	209,686,877	204,225,167
Investments in (at cost, less reserves) and advances to unconsolidated foreign subsidiaries	17,875,110	9,541,668
Cost in excess of net assets of businesses acquired	84,736,742	84,219,363
Brands, trade-marks and good will	1	1
Other assets	6,473,898	7,227,080
	$1,243,521,934	$1,213,930,227

See notes to financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	1967	1966
Current liabilities:		
Notes payable	$ 175,500,000	$ 180,650,000
Accounts payable and sundry accrued accounts	101,788,409	99,475,303
Portion of long-term debt due within one year (less principal amount of debentures in treasury—$3,995,000 in 1967; $2,920,000 in 1966)	3,005,000	4,080,000
Federal and state income taxes	44,425,983	66,350,625
Total current liabilities	324,719,392	350,555,928
Long-term debt (due annually 1969-1972, $7,000,000; 1973, $13,000,000):		
2½% Promissory Note	8,000,000	10,000,000
3% Debentures, due October 1, 1973	33,000,000	38,000,000
Total long-term debt	41,000,000	48,000,000
Stockholders' equity:		
Preferred Stock—par $100 Authorized and issued 490,000 shares, 3.60% Series	49,000,000	49,000,000
Common Stock—par $5 Authorized—60,000,000 shares; issued—40,971,533 shares	204,857,665	204,857,665
	253,857,665	253,857,665
Earnings retained	678,333,067	610,384,510
	932,190,732	864,242,175
Less cost of stock in treasury:		
Preferred Stock, 3.60% Series (290,000 shares)	24,571,415	24,571,415
Common Stock (735,981 shares in 1967; 604,655 shares in 1966)	29,816,775	24,296,461
	54,388,190	48,867,876
Total stockholders' equity	877,802,542	815,374,299
	$1,243,521,934	$1,213,930,227

Statement of Earnings

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

R. J. REYNOLDS TOBACCO COMPANY AND CONSOLIDATED SUBSIDIARIES

	1967	1966
Net sales	$1,911,414,209	$1,804,199,220
Costs and expenses:		
Cost of products sold	1,399,446,469	1,347,907,388
Selling, advertising, general and administrative expenses	170,164,645	146,714,453
Provision for depreciation	26,601,836	23,641,017
Interest and debt expense	10,462,051	6,942,440
	1,606,675,001	1,525,205,298
Earnings before provision for taxes	304,739,208	278,993,922
Provision for Federal and state taxes on income	153,787,000	138,999,000
Net earnings	$ 150,952,208	$ 139,994,922
Net earnings per share of Common Stock	$3.73	$3.41

Statement of Earnings Retained

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
Earnings retained at beginning of year	$ 610,384,510	$ 587,352,387
Add net earnings	150,952,208	139,994,922
	761,336,718	727,347,309
Deduct:		
Cash dividends—		
R. J. Reynolds Tobacco Company—		
Preferred Stock, 3.60% Series	720,000	720,000
Common Stock at $2.05 per share for 1967 ($2.00 per share for 1966)	82,283,651	79,745,591
Acquired companies	—	79,817
Cost of treasury Common Stock (less related par value) issued for Patio Foods, Inc., Filmco, Inc., and Filler Products, Inc., in excess of their earnings retained and certain combination expenses	—	36,417,391
	83,003,651	116,962,799
Earnings retained at end of year	$ 678,333,067	$ 610,384,510

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE A—PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its domestic and Canadian subsidiaries. All intercompany items and transactions have been eliminated in consolidation. Accounts of other foreign subsidiaries are not consolidated, such investments being carried at cost less reserves to reduce them to the equity in the underlying net book assets.

On February 10, 1967, in exchange for 560,000 shares of its treasury Common Stock, the Company acquired the capital stock of Filmco, Inc. On July 20, 1967, in exchange for 325,729 shares of its treasury Common Stock, the Company, through its wholly-owned subsidiary, R. J. Reynolds Foods, Inc., acquired the business and substantially all the assets of Patio Foods, Inc. Both acquisitions have been accounted for as poolings of interests with the accounts consolidated for the entire year 1967 and, for comparative purposes, for the year 1966.

On June 29, 1967, the Company, through its wholly-owned subsidiary, R. J. Reynolds Foods, Inc., acquired for cash the capital stock of Coronation Foods Corporation, a Canadian corporation. The transaction has been accounted for as a purchase and the operating results since the date of acquisition have been included in the consolidation.

The Company is not amortizing the cost in excess of the net assets of businesses acquired.

NOTE B—STOCK OPTIONS

Substituted options to purchase shares of Common Stock of the Company, issued in 1963 as a result of the acquisition of Pacific Hawaiian Products Company, expired on August 1, 1967. During the year, substituted options for 1,974 shares were exercised at $34.20 per share.

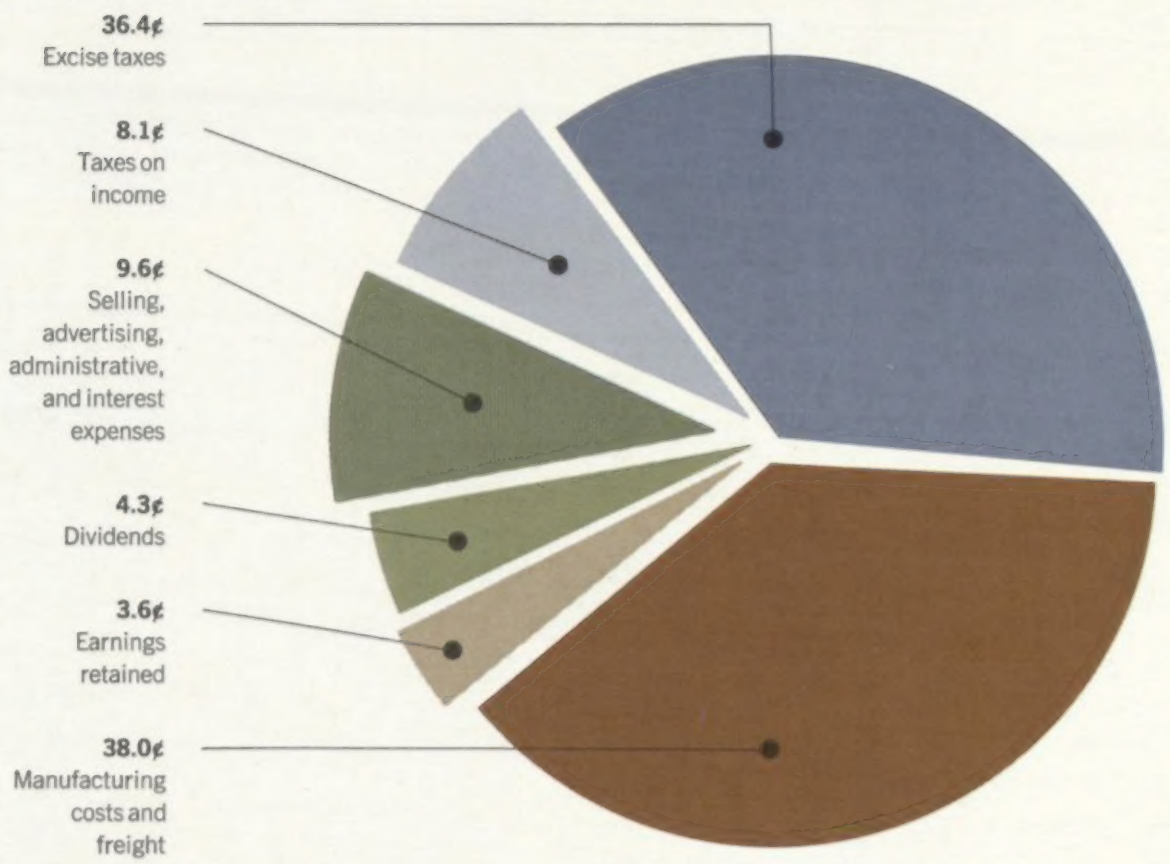
NOTE C—PENSION PLANS

The Company and its consolidated subsidiaries have several pension plans covering substantially all employees. The total pension expense for the year was $2,771,495 of which the major portion applied to a plan funded under the aggregate cost method. The Company's policy is to fund pension cost accrued. The total amount of assets exceeded the actuarially computed value of vested benefits as of December 31, 1967.

NOTE D—PENICK & FORD

There is pending in the United States District Court for the District of New Jersey an action brought by the United States of America against the Company to require the divestiture of the assets and business it acquired in June 1965 from Penick & Ford, Ltd., Incorporated. The Company is contesting this action.

DISTRIBUTION OF THE 1967 SALES DOLLAR



REPORT OF INDEPENDENT ACCOUNTANTS

R. J. Reynolds Tobacco Company,
its Directors and Stockholders

We have examined the consolidated financial statements of R. J. Reynolds Tobacco Company and consolidated subsidiaries for the year ended December 31, 1967. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of earnings and of earnings retained present fairly the financial position of R. J. Reynolds Tobacco Company and consolidated subsidiaries at December 31, 1967, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. It is also our opinion that the statement of source and disposition of corporate funds for the year ended December 31, 1967, shown on page 18 presents fairly the information shown therein.

Ernst & Ernst

Winston-Salem, N. C., February 7, 1968.

BOARD OF DIRECTORS

WILLARD M. BRIGHT
LEIGHTON H. COLEMAN
A. H. GALLOWAY
BOWMAN GRAY
GORDON GRAY
REUBEN P. HUGHES
WILLIAM R. LYBROOK
CHARLES F. MYERS, JR.
DAVID S. PEOPLES
H. H. RAMM
FENTON D. ROYSTER
JOSEPH H. SHERRILL
W. S. SMITH, JR.
COLIN STOKES
CHAS. B. WADE, JR.

OFFICERS

BOWMAN GRAY
Chairman, Board of Directors

A. H. GALLOWAY
President and Chairman, Executive Committee

COLIN STOKES
Executive Vice President

DAVID S. PEOPLES
Executive Vice President

W. S. SMITH, JR.
Executive Vice President

H. H. RAMM
Vice President and General Counsel

CHAS. B. WADE, JR.
Vice President

WILLIAM R. LYBROOK
Vice President and Secretary

JOSEPH H. SHERRILL
Vice President

WILLARD M. BRIGHT
Vice President

FENTON D. ROYSTER
Vice President

WM. D. HOBBS
Vice President

C. H. JUDGE
Vice President

E. C. PETERSON
Treasurer

W. S. GRANT
Comptroller

REGISTRAR

MANUFACTURERS HANOVER TRUST COMPANY
350 Park Avenue
New York, New York 10022

TRANSFER AGENTS

THE CHASE MANHATTAN BANK, N. A.
1 Chase Manhattan Plaza
New York, New York 10015

THE FIRST NATIONAL BANK OF JERSEY CITY
1 Exchange Place
Jersey City, New Jersey 07303

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